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UNITED STATES GENERAL ACCOUNTING OFFICE
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STATEMENT OF
SPECIAL ASSISTANT TO THE COMPTROLLER GENERAL
MILTON J. SOCOLAR
BEFORE THE
SUBCOMMITTEE ON LEGISLATION AND
NATIONAL SECURITY
OF THE
HOUSE GOVERNMENT OPERATIONS COMMITTEE
ON
PROMPT PAYMENT ACT OF 1981



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Mr. Chairman and Members of the Subcommittee:

I am pleased to testify on H.R. 4709, a bill to require the Federal Government to pay interest on overdue payments.

The proposed legislation would protect contractors, who through no fault of their own, experience long delays in receiving payments due them from Government agencies. We support that aim. Even with an efficient payment system, some payments doubtless would still be made late given the volume of business handled by the Government. We have found the Government's bill paying record to be reasonably good. Indeed, the Government is losing more money through making payments early than it is costing

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contractors through making payments late. There is, nevertheless, a sizable number of contractors who inequitably suffer the consequences of today's high cost of capital because of unreasonably late payments. On the basis of work we did in 1978, we estimate--applying an interest rate of 12 percent and assuming the same general conditions and annual Federal procurements of \$100 billion--that late payments are costing contractors anywhere from 150 to 375 million dollars annually. These figures do not include the additional cost of time and effort spent dealing with correspondence and complaints inevitably associated with payment delays.

There are, however, a few important changes to H.R. 4709 which should be considered.

The bill as presently worded will generate significant administrative burdens. Agencies will have to develop systems for tracking documentation to determine whether the contractor or the Government was at fault in causing a late payment. Systems will also have to provide for computation and verification of any interest amounts due when paying bills. The additional costs could be substantial. And much of this additional cost would be associated with minor delays in payment which are not the real basis of concern.

Rather than mandating the Government to pay interest whenever it is making a late payment, I would suggest that the bill provide for the payment of interest only upon receipt of a proper claim for interest within some designated period of time after payment of the underlying amount, say 15 days. Contractors would not, I suspect, bother submitting claims for negligible

amounts stemming from minor delays in payment. Thus, only the more serious delays--those requiring relief--would have to be administered.

Also, in order to avoid the accumulation of large amounts of interest in situations where, for example, an invoice might be unattended because it is lost or misplaced, the bill should limit the Government's interest liability to periods of 120 days beyond notifications by the contractor that contract payment has not been received.

The bill requires that contractors be notified within 10 days of any defect or impropriety in any invoices submitted which would prevent the running of the 30-day period allowed for making payment.

The bill does not precisely specify the starting date for the 10-day notification period and it does not specify the consequences of a failure to make proper notification. The bill might be revised to state that contractors are to be notified of defects within 10 days of receipt of an invoice at the appropriate Government installation and that interest for each day the required notification is late shall be added to any interest otherwise payable.

With regard to provisions of the bill authorizing Federal grantees to contractually provide for the payment of interest, it is not clear what restrictions apply. The bill provides that grantee interest payments shall be in accordance with the bill and implementing regulations while at the same time providing that such payments may be under different terms or conditions than required by the bill and regulations.

I would suggest that the subcommittee consider stipulating only that Federal grant monies may be used to pay interest on late payments in accordance with practices applicable to other than Federal grant funds of the grantee.

I would close by pointing out that although providing for the payment of interest on late payments involves certain administrative burdens, those burdens should not be overwhelming, particularly if the bill is revised to require that interest be paid only upon claim. It is likely, moreover, that the very exposure to liability for interest would itself serve to curtail the number of late payments made; thereby reducing costs associated with overdue accounts. We have long called for agencies to charge interest on delinquent debts owed the Government as an incentive to promote prompt payment. The same incentive should operate where Government is the debtor. Enactment of H.R. 4709 should speed up the Government's bill payment process.

I would be happy to respond to any questions you and the other subcommittee members may have.